



## Benchmarking Treasury



### AnalyticResults

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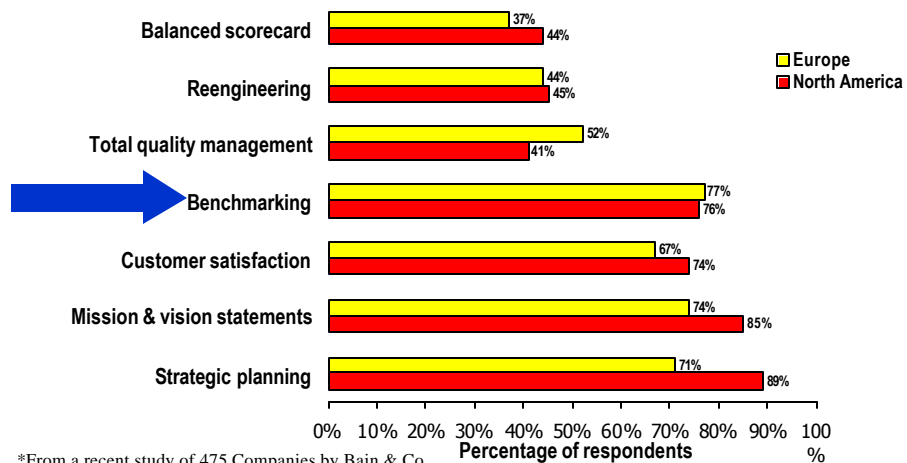


## What is Benchmarking?

- The comparisons of processes, technology usage, performance characteristics, headcounts or other attributes in a specific industry or across industries
- Benchmarking “begets” best practices -- otherwise...why benchmark at all?

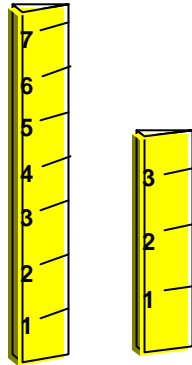
## Benchmarking continues to be a key management tool and technique

Management tools and techniques



## Benchmarking Highlights Potential Areas For Improvement

### Benchmarking



### Best Practices

- ◆ Automatic initiation of funds concentration transactions
- ◆ EFTs initiated directly from A/P system
- ◆ Automated journal entries
- ◆ Automatic cash positioning
- ◆ Internet / Intranet
- ◆ Financial EDI

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## The Facts....

- \$360 billion is left idle in DDA's each day
- A surprisingly large number of organizations:
  - Don't know how many bank accounts they have
  - Fail to utilize the proper technologies
  - Don't maintain adequate policies and controls
  - Just don't have a plan...
- Fraud is on the rise - one one day last year, an estimated 1.2M "fraudulent" checks entered the banking system

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## Business Conditions are Rapidly Shifting...again

Business Driver	Yesterday	Today
<b>Markets</b>	National	Global
<b>Service</b>	Standardized	Custom
<b>Products</b>	Volume	Innovative
<b>Competitors</b>	Few/Big	Many/Small
<b>Manufacturing</b>	Mass	Flexible
<b>Trading</b>	Production	Market/ Electronic
	Relationship/ Transactional	

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## Implications For Finance: Information Must Define And Create Value

Information	Today	Tomorrow
Content	Exhaustive	Selective
Measurement	Financial	Varied
Frequency	Calendar	Event
Organization	Local	Global
Format	Paper	Electronic
Analysis	What	Why
Reporting Entity	Organization	You Name It!
Value Measure	Information	Insight



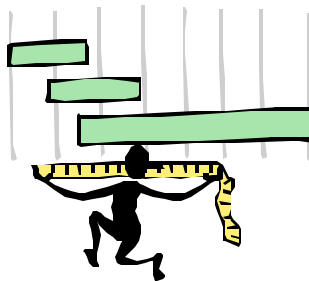
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## Lots of Little Questions.....

- Are you using the optimal technology and banking structure?
- Are internal controls sound?
- Are policies in place and are practices in compliance?
- Are your supplier & your delivery costs “right” ?
- What’s the **quantitative** impact of emerging events?

## The Real Question....

- **How does your company measure up???**



## **The Issues for Treasury.....**

- Is cash utilized effectively within your company?
- Are core treasury operations/processes efficient and effective
- Where is the group headed?
- What to prioritize?
- What's the business case?

## **The Treasury Benchmark**

## Treasury Benchmark - What is it?

- The treasury benchmark is an invaluable exercise designed to rapidly assess treasury related controls, processes, policies
  - Assess where you are now
  - Define where you want to go
  - Prioritize & Plan on how to get there

## Why do a benchmark?

- Things change over time
  - Staffing/Management
  - Business structure/geography
  - Services
  - Technology
- Proactive rather than reactive
- The treasury reviews that a benchmark addresses then considers issues that are usually outside of the scope of other audits
- A chance to identify new opportunities

## The Scope

- Treasury Operations
  - Processes, tools and technology which support the Treasurer's mission
  - Resources
  - Controls
  - Productivity
  
- Banking Activities
  - Specific objectives
  - Bank relations
  - Architecture/services



## The Review of Treasury Operations

- The Areas to Examine
  - Controls, Policy Compliance, Procedures, Opportunities
    - Daily cash positioning
    - Collection
    - Disbursement
    - Electronic Payments
    - Inter-company transactions
    - Short-term investing/borrowing
    - Accounting/reconciliation
    - Risk management
    - Foreign exchange
    - Reporting/performance metrics
    - Other

## The Review of Banking

- Bank Accounts
  - Number and purpose
  - Structure
  - Administration, controls
- Bank Service Utilization and Costs
  - Services used/technology
  - Pricing structure/balances
  - Bank compensation management
- Relationship Management
  - Annual review
  - Performance tracking/reporting
  - Periodic re-bid of providers/services

## When to Perform a Benchmark?

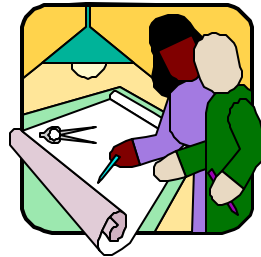
- When things are changing due to:
  - Merger/acquisition
  - Significant growth
  - New products, new locations
  - Changes in the organization structure/personnel
  - Difficult financial times

## When to Perform a Benchmark?

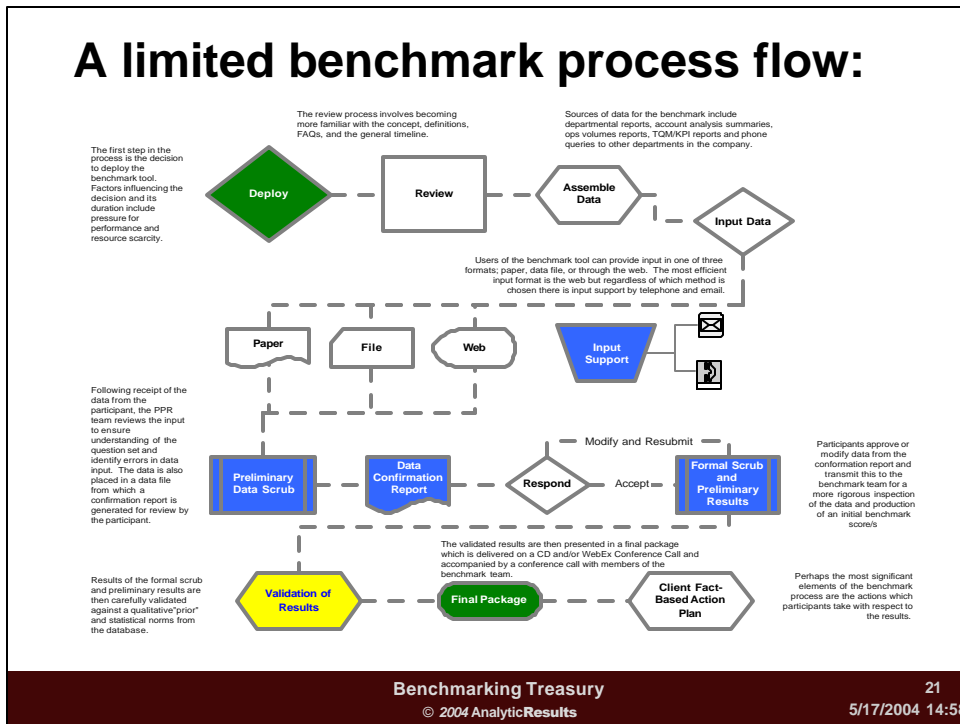
- When things are stable, but ..
  - Company has new management
  - Significant time has passed since last treasury audit
  - You suspect that something may be wrong or “broken”
  - You are considering new technology

## The Benchmark Process

- Plan the work...
  - Set objectives
  - Identify resources
  - Define timeframes
  - Define methodology
    - On-site interviews
    - Observation, testing
    - External interviews
    - Research
  - Data gathering ( questionnaires )



## A limited benchmark process flow:



## Types of Data Required

- Data gathering possibilities
  - Organization charts
  - Process flow documentation
  - Policies and procedures documentation
  - Remittance or disbursement data
  - Set of management reports
  - Bank account list
  - Bank statements/reconciliations
  - Bank account analyses
  - Cash position worksheets
  - Cash forecasts
  - Confirmations
  - F/X exposure documentation

## Resources Involved

- Internal
  - Treasury staff
  - Parent company Staff

*May need cooperation of other internal resources*

- *Accounting, Systems, Audit, A/R, A/P*



## Resources Involved

- External
  - Independent consultants
  - Banks
- Use external resources when....
  - Limited internal resources
  - Need objectivity
  - Need a fresh approach
  - Benchmarks
  - Need technical expertise



## The Results of the Benchmark

- Identify recommendations
  - Quantitative – cost/benefit
  - Qualitative
- Implementation Planning
  - Document steps
  - Identify the impact
  - Schedule



## Benefits to Expect

- Control improvements/less risk
- More efficient processes/procedures
- Quantifiable improvements in cash utilization
- Higher level of staff performance
- Improved information/greater access

## Benefits to Expect

- Reduced processing costs
- Time savings
- Streamlined banking network
- Application of new techniques, technologies
- Increased cash management awareness
- Strategic focus

## Post-Benchmark Steps

- Document and share your findings
- Be sure to list and quantify all of the savings/benefits
  - Time savings
  - Hard dollar savings (i.e., errors in billing)
  - Projected savings from process improvements
  - Costs/penalties that were avoided
- Estimates are fine!
- Don't be afraid to go back to service providers to seek compensation for errors
- Learn from the process

## For Today's Participants:

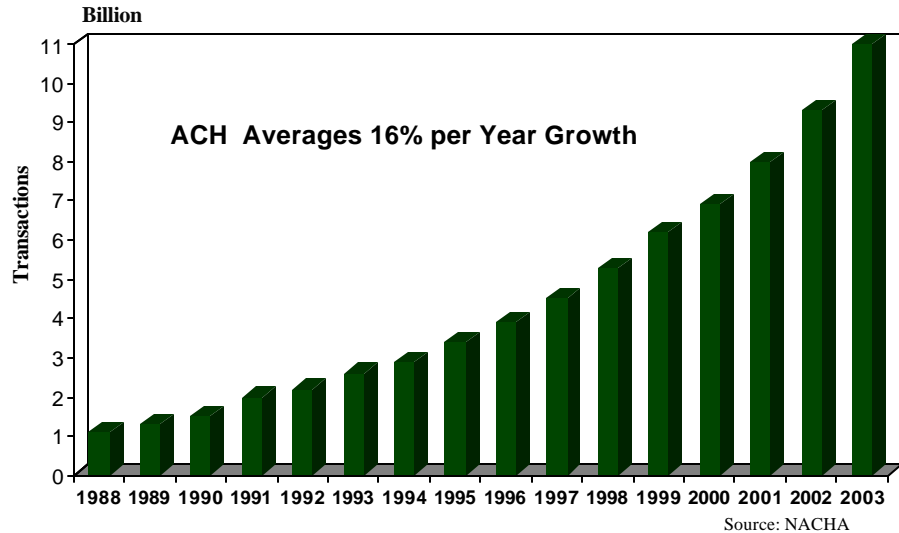


www.epaymetrics.com

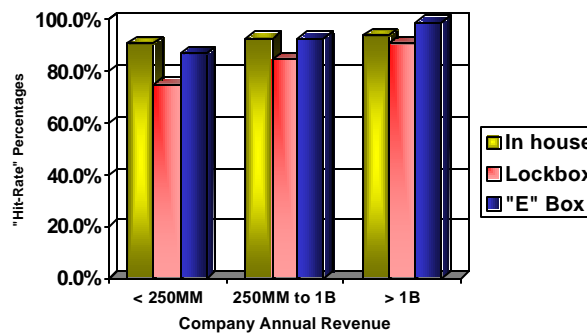
- Take the E-Pay Metrics Benchmark...over 600 participants, to date.
- Managed in conjunction with three university programs (UC Berkeley, UNC Chapel Hill, WCU)
- Mission: Benchmarks that are objective, refereed, independent, inexpensive, and not lead-ins for more services
- No fees, 40 questions, for the participant benchmark. Completely confidential
  - User ID: program
  - Password: participant
- You receive, in return, a report-out listing your metrics against the database averages
- Charts / graph presentation formats, as well as more analysis are available, including industry segment reports
- Comprehensive Benchmarks on Treasury, in fact all of Finance, or other financial functions, are also available

# General Payments Industry & Specific Treasury Benchmark Findings

## Electronic Payment Growth



## There's something about "pushing" electronics in collections....

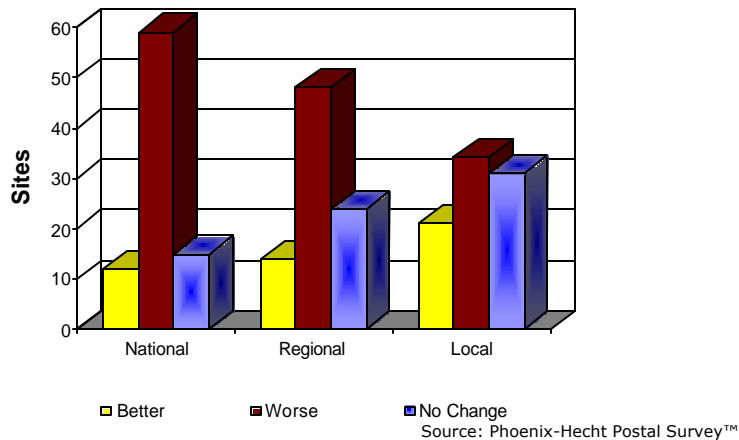


Source: DecisionGauge

## Study Highlights

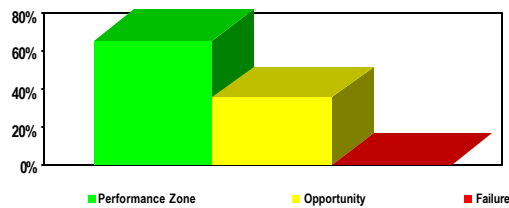
### 5-Year Trends: Lockbox Mail Float

Site 5-Year Trends Phoenix-Hecht Postal Survey



## EFT Disbursements / “Primary” Vendors

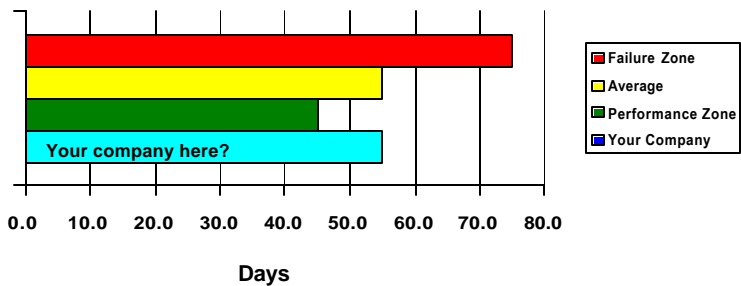
Aggregated Database: Supply Chain Management



- **Observation:** Companies who identify “primary” vendors also tend to pay those vendors electronically
- **Implication:** Lack of awareness or indifference to benefits of negotiated timing of payments, coupled with the reductions of costs in electronic settlement and payments, can cost a key vendor relationship
- **Action:** Consider electronic disbursements in conjunction with an overall A/P best practices and cost reduction effort Source : DecisionGauge

## Days Payable Outstanding

Aggregated Database

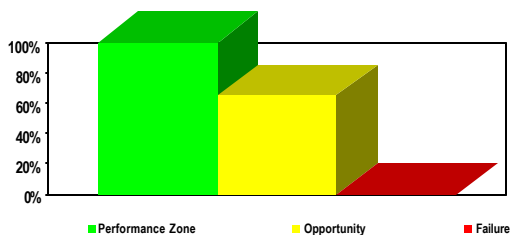


- **Observation:** Investigate your peer group, or find a peer group, for DPO
- **Implication:** Manage metric to your target
- **Action:** Maintain, within the context of current working capital strategy, but revisit if all working capital attributes are considered across the organization

Source : DecisionGauge

## Positive Pay Utilization

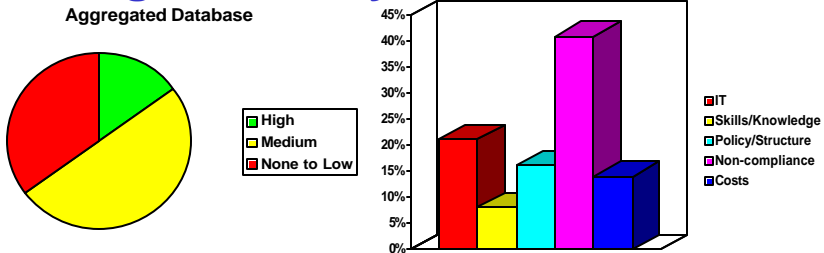
Aggregate Database



- **Observation:** Are you using positive pay?
- **Implication:** Lack of awareness or indifference to risks of check fraud
- **Action:** Immediately implement positive pay, if not already implemented

Source : DecisionGauge

# Cash "visibility" remains a challenge for many....



Is all of the company's cash visible to you at HQ?

For what is NOT visible, what's the root cause of why cash is not visible?

Source : DecisionGauge

## Sample process component Benchmark comparisons

SOUTHC0 BENCHMARK COMPARISONS				
Data Attribute	Data	Benchmark Average	Benchmark First Quartile	
<b>Part 1</b>				
% of Invoices w/ no PO's	2%	7.5%	2%	
Manual Invoices - % Complete & Accurate	88%	75%	96%	
Process Time of Manual Invoices	2 mins	5 mins	3 mins	
Expense Acct - Process Time	5 mins	10 mins	1.5 mins	
Expense Acct - % Complete & Accurate	88%	85%	99%	
PNC Credit Card Receipts - Turnaround time	3 mins			
Auto Voucher - how many	90	93%	100%	
Auto Voucher - % Correct & Accurate	95%	91%	99%	
Process Time Invoices through PO System	1 min			
% Complete & Accurate - Invoices w/ PO's	85%	95%	99%	Note PO's
# People involved when prob with Invoice	2 People	3	1	
# of Invoices Received in a Day	180			
Turnaround Time in Acct 4	5 mins			
Turnaround Time in Purchasing by Facility	Various			
How many resources in error correcting by facility	1 person			
Voucher Filing - Estimated % of exceptions filed by category	4%			
How many unprocessed Debit Memos		90%	99%	
% of Complete & Accurate Debit Memos				
Checks - Batch Size - First Time Through	403			
Wires - Batch Size - First Time Through	30		No Batch	
Checks - First Time Through % Needs to be Deleted	100%	100%	100%	
Wires - First Time Through % Needs to be Deleted	70%	88%	100%	
Measure Downtime of Systems - Tech Problems	1x month - 30 mins	97.3% Uptime	99.999% Uptime	
Process Time - ACH and FED Wires	3 mins	3 mins		
Post Payments in Symix - Lead Time	1 min each			
Post Payments in Symix - # People involved	2 People	1.6 FTE	1 FTE	
Emails Per Wire - Process Time	1 min each			
FED & FX Wires - Lead Time	1-2 Days	7 mins	1 min	
Posting Wires - Lead Time	1-2 Days	7 mins	1 min	
% of Lead Time Delay in Mailing Checks	1-2 Days	0	0	
# Days per Week Checks Processed	3	2x	1x	
% Automatic vs. Manual stuffing of Checks for Mailing	74%	81%	99%	
<b>Part 2</b>				
Wires Floor Space		100 sq ft	64 sq ft	
Utility Bill Processing- Autopay		47%	85%	Note: Reverse Lockbox
Utility Bill Payments by Card		15%	12%	
Utility Bill Payments by ACH		21%	47%	
Employee Reimbursements by ACH		83%	99%	
Electronic Expense Report Filing, Approval & Reconciliations		85%	100%	
Online/Web vendor look status capability		34%	55%	

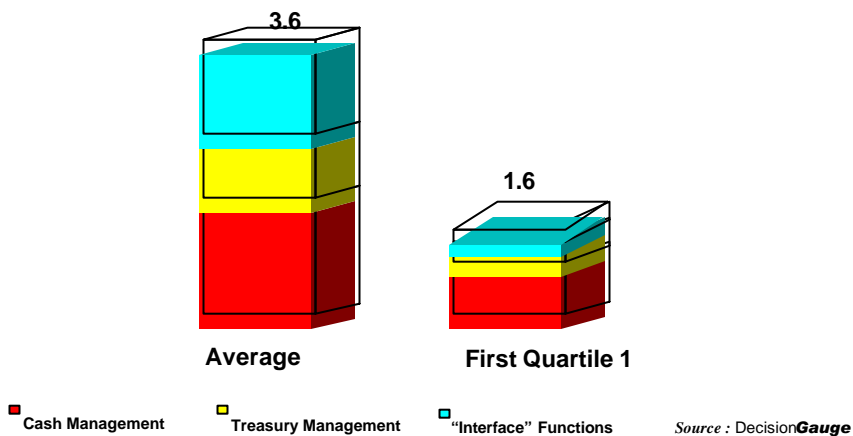
## Some Benchmark Comparisons:

Attribute	Company Answer	Average Score	First Quartile Score
Organization	SSC	Hybrid	SSC
CM Relationship Banks (Main – non-Field Dep)	5	3	1
Lockboxes	3	5	4.5
Lockbox Pricing	TBD	Mid 2/3	37% off list
Lockbox Imaging	100%	None	55%
Integrated Image Management	None	None	100%
Float Management	Pending	Annual	Quarterly
Contingency Planning	Provider Based	Never Tested	Tested Annually
Mail Float	2.72	3.05	2.40
Availability Float*	1.52	1.10	.85
ACH Penetration / \$ %	11%	16%	37%
ACH Penetration / Cust %	6.7%	9.5%	14.6%
Value of Whsle Business	Min \$.75M	Min \$.48M	Min \$.75M
DSO	-33	43	35

\*NB: Based on calendar day float conversion

## “Back-Office” Processing Drives Treasury Staffing

FTEs Per \$ 500 Million Of Revenue

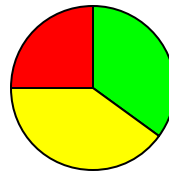
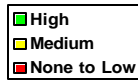
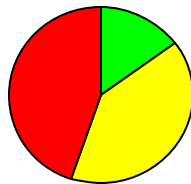


## Treasury & Finance still lags other areas of the company....

My manager has the people skills needed for our area...

Aggregated Database:  
Treasury & Finance

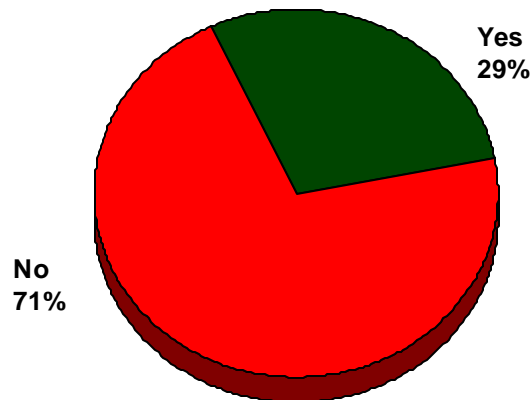
Aggregated Database:  
Sales, Production & IT



Source : DecisionGauge

## Does your company use a “bank report card?”

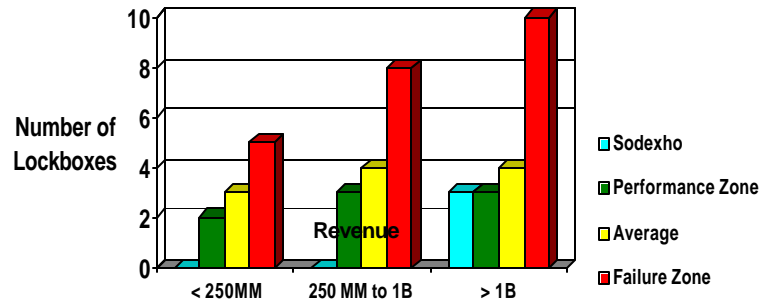
Existence of a formal, documented bank report card



Source : DecisionGauge

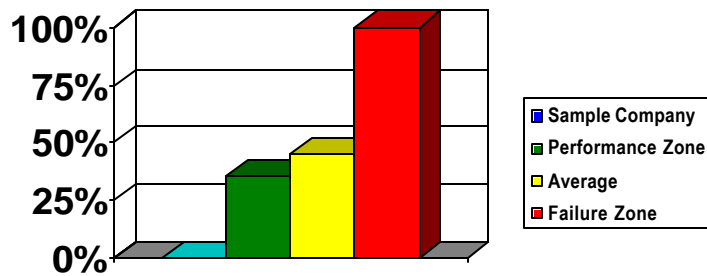
## Lockbox Utilization

Aggregate Database



## Credit & Cash Management Services Tie-in

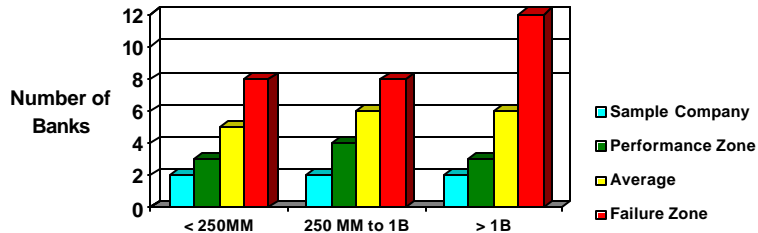
Aggregate Database



# Banking Relationships

Number of Banks & Revenue Correlation

Aggregate Database



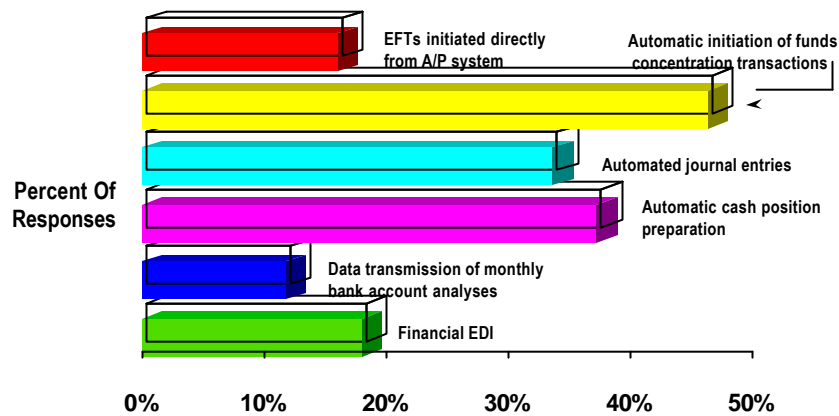
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# Limited Use Of Best Practices in Treasury Impedes Treasury's Effectiveness



Source : DecisionGauge, (updated from initial Hackett Benchmarkingsolutions)

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# Directional “Benchmarks” From Phoenix-Hecht

[www.phoenixhecht.com](http://www.phoenixhecht.com)

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## Credit Influence

	Upper- Middle	Large Corp
Have any credit banks reduced or withdrawn credit commitments in the last year?	15.4%	38.6%
If your credit banks reduced or withdrew credit commitments, have you moved cash management services?	16.5%	33.5%

Source: 2002 Cash Management Monitor™

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## Main Reason that Determines Company's Most Important Cash Management Bank

Large Corporate	2000	2002	Diff
Most important credit bank	13.9%	20.9%	7.0%*
Our major concentration bank	36.7	34.7	(2.0)
Provides the greatest number or volume of services	27.3	22.9	(4.4)*
Our primary lockbox bank	4.6	4.9	0.3
Our primary disbursement bank	7.2	7.0	(0.2)
In the most important geographic location	6.1	4.4	(1.7)
Most competitively priced	4.2	5.2	1.0

\*Statistically significant change

Source: 2002 Cash Management Monitor™

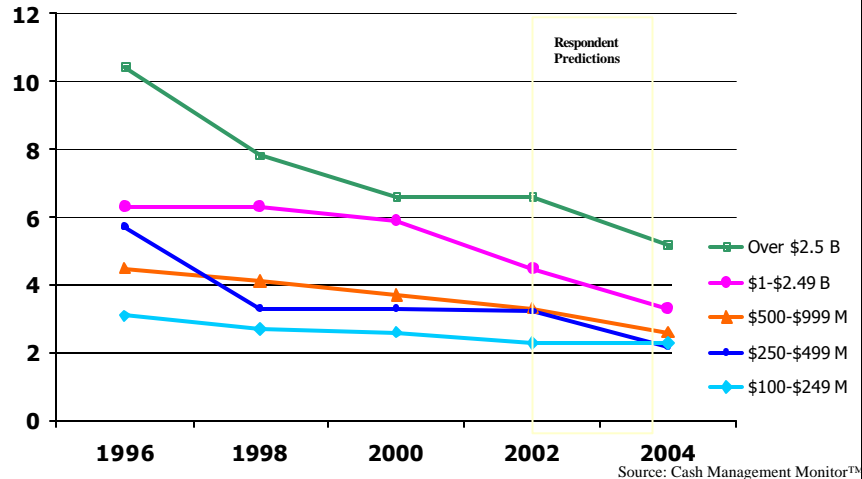
## Distribution of Quality Index Grades™

Grade	Middle Market	Upper Middle Market	Large Corporate Market
<b>A+</b>	<b>23%</b>	<b>15%</b>	<b>17%</b>
<b>A</b>	<b>19%</b>	<b>20%</b>	<b>17%</b>
<b>B</b>	<b>43%</b>	<b>38%</b>	<b>40%</b>
<b>C</b>	<b>8%</b>	<b>10%</b>	<b>10%</b>
<b>D</b>	<b>7%</b>	<b>17%</b>	<b>16%</b>

Source: 2002 Cash Management Monitor™

## Relationship Consolidation Continues

Average Number of Cash Management Relationships



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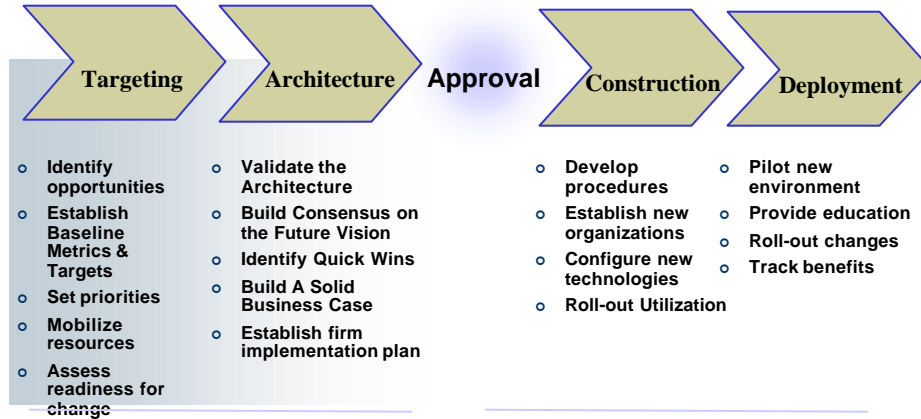
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## A strategy is what creates success...

- Here's a sample of a business transformation strategy, in four phases:



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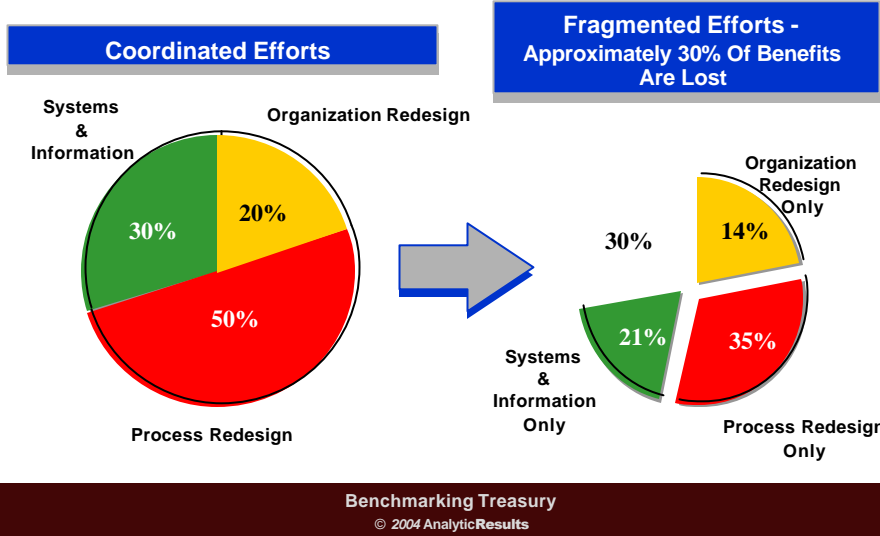
# Summary

## Plans and Intentions

Scale 1-5 with 5 = Very Important	Large Corporate	Upper-Middle Market
Add or Change a Controlled Disbursement Site	2.35	2.03
Add or Change ACH Bank	2.18	1.96
Add or Change Lockbox Locations	2.77	2.27
Initiate Internet-based Consumer Bill Payment	2.20	2.02
Expand e-commerce with Suppliers	2.83	2.56
Expand e-commerce with Corporate Customers	2.90	2.52
Expand e-commerce with Consumers	2.35	2.16
Do a Treasury Review	3.04	2.66
Add or change a Bank for International Services	2.40	1.99

Source: Phoenix-Hecht Cash Management Monitor™

## As historical results reveal maximum value will not be achieved through fragmented efforts



## Treasury's Challenges are to Now Possess Significantly Different Skills and Lead!

- Working Capital Guru!
- Flexible, creative problem-solvers
- Customer service and advocacy
- Strong ability to exploit technology
- Ability to see the vision, take initiative and lead change
- Cross-business and multi-disciplinary skills
- Global business-process capability
- Strong team-building and interpersonal skills
- LEADERSHIP, LEADERSHIP, LEADERSHIP

